

ORANGE COUNTY DEVELOPMENT AGENCY
(A Component Unit of the County of Orange, California)

Independent Auditor's Reports,
Management's Discussion and Analysis,
Basic Financial Statements and Supplemental Information

For the Year Ended June 30, 2003

ORANGE COUNTY DEVELOPMENT AGENCY
(A Component Unit of the County of Orange, California)

For the Year Ended June 30, 2003

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To the Honorable Board of the
Orange County Development Agency

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the Orange County Development Agency (Agency), a component unit of the County of Orange, California, as of and for the year ended June 30, 2003, which collectively comprise the Agency's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency as of June 30, 2003, and the respective changes in financial position thereof and the budgetary comparison for the OCDA Public Assistance Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 15, 2003, on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Agency. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Marcus, Fini & Company LLP

Certified Public Accountants

Los Angeles, California

December 15, 2003

ORANGE COUNTY DEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION ANALYSIS

The information presented in the "Management's Discussion and Analysis" (MD&A) is intended to be a narrative overview of the financial activities of the Orange County Development Agency (Agency) for the year ended June 30, 2003. We encourage readers to consider this information in conjunction with the accompanying financial statements, notes and supplemental information.

FINANCIAL STATEMENT OVERVIEW

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements, and notes to the basic financial statements. In addition to the basic financial statements this report contains additional supplemental information.

Government-wide Financial Statements

The government-wide financial statements are made up of the following two financial statements: the *Statement of Net Assets* and the *Statement of Activities*. Both of these statements are prepared using accounting methods similar to those used by private-sector companies, the economic resources measurement focus and the accrual basis of accounting.

The Statement of Net Assets provides information regarding all of the Agency's assets and liabilities, with the difference between the two reported as net assets.

The Statement of Activities presents information showing the Agency's revenues and expenses for the fiscal year. All revenues and expenses are reported as soon as the underlying event giving rise to them occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and incurred but unpaid interest expense).

The basic services of the Agency are considered to be governmental activities including general government, tax pass-throughs, redevelopment project costs, low and moderate-income housing, and interest expenses. All Agency activities are primarily funded by tax increment and its leverage through the issuance of bonds.

Fund Financial Statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency uses fund accounting to ensure and demonstrate compliance with legal requirements. All of the Agency's services are reported in governmental funds. These funds are reported using modified accrual accounting, which recognizes increases and decreases in financial resources only to the extent that they reflect near-term inflows or outflows of cash. The governmental funds statements provide a detailed view of the Agency's operations.

The Agency maintains three individual governmental funds organized according to their type: special revenue, debt service and capital projects. Reconciliations are prepared for both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances to facilitate comparisons between governmental funds and governmental activities. This reconciliation identifies the differences between modified accrual accounting and full accrual accounting. The major differences include recognition of certain accrued expenses, capital assets, and long-term liabilities reported in the Statement of Net Assets and Statement of Activities, which are not reported in the fund financial statements.

Notes to basic financial statements: The notes provide information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

Supplemental Information: This section of the report contains the combining schedules by project area and budgetary comparison schedules for the debt service and capital projects funds. This section is presented to provide additional information that is useful to users of these financial statements.

AGENCY-WIDE FINANCIAL ANALYSIS

NET ASSETS		
	Governmental Activities	
	June 30, 2003	June 30, 2002 As restated
Current and other assets	\$ 87,080,387	\$ 81,853,220
Capital assets, net	1,974,613	1,966,797
Total assets	89,055,000	83,820,017
Long-term liabilities	73,903,783	75,906,082
Other liabilities	7,786,720	7,243,147
Total liabilities	81,690,503	83,149,229
Net assets		
Invested in capital assets	1,974,613	1,966,797
Restricted	19,898,679	19,064,684
Unrestricted	(14,508,795)	(20,360,693)
Total net assets	\$ 7,364,497	\$ 670,788

As of June 30, 2003, the Agency's net assets increased by \$6,693,709 compared to the previous fiscal year mainly because more Agency resources became available as a result of increased property tax increments due to rising assessed property valuations.

A portion of the Agency's net assets of \$19,898,679 represents resources that are subject to external restrictions on how they may be used. Such resources are restricted for public assistance and the acoustical insulation program. The remaining balance of unrestricted net assets (deficit) of \$14,508,795 will be covered by collections of property tax increment in the future.

For comparison purposes, the amount shown in the following table for interest expense for the year ended June 30, 2002, includes a prior period adjustment of \$1,411,706 to reflect an over-accrual of interest expense in 2002.

Governmental Activities

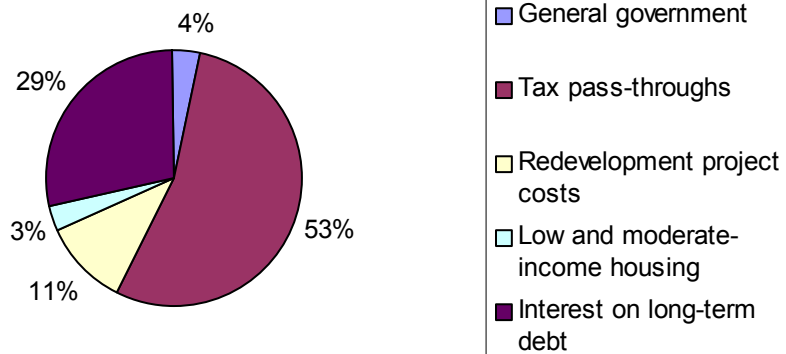
Revenues: The Agency's governmental activities rely on several sources of revenue to finance ongoing operations. Property taxes comprised the largest revenue source for the Agency followed by interest income and operating grants and contributions. At the end of fiscal year 2002-03, total revenues for the governmental activities were \$22,038,548, a decrease of \$366,095 from the prior fiscal year. The decrease was due to the combination of receiving less interest income as a result of interest rates being lower last year due to less than strong economic conditions and receiving less operating grants and revenue as a result of less eligible properties participating in the redevelopment construction program. This decrease in revenue however, was offset by an increase in property tax increment revenue of \$1,962,548 over the prior year as a result of increased property valuations this fiscal year.

Expenses: Total expenses for governmental activities were \$15,344,839. The majority of these expenses were spent for tax pass-throughs, redevelopment project costs, and interest expense. The decrease of \$1,561,670 from the prior fiscal year was due to less redevelopment project costs and less interest on long-term debt. Project improvements costs were lower because the Agency just completed some capital projects and is now in the planning and design stages for several others. Interest expense was lower because the remaining balance of outstanding long-term bonds was lower, and thus, the associated interest expense was lower.

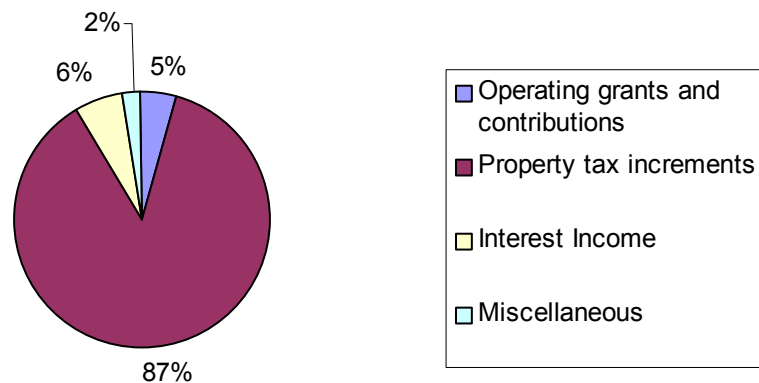
The following table provides summarized information from the Statement of Activities:

CHANGES IN NET ASSETS		
	Governmental Activities	
	For the Year Ended June 30, 2003	For the Year Ended June 30, 2002
<u>Revenues:</u>		
Program revenues:		
Operating grants and contributions	\$ 1,031,633	\$ 2,434,741
General revenues:		
Property tax increments	19,097,962	17,135,414
Interest income	1,422,222	2,082,724
Miscellaneous	486,731	751,764
Total revenues	22,038,548	22,404,643
<u>Expenses:</u>		
General government	590,224	735,198
Tax pass-throughs	8,148,803	8,327,472
Redevelopment project costs	1,700,886	2,283,541
Low and moderate-income housing	466,475	41,161
Interest on long-term debt	4,438,451	5,519,137
Total expenses	15,344,839	16,906,509
Change in net assets	6,693,709	5,498,134
Net assets (deficit) - beginning of the year	670,788	(4,827,346)
Net assets - end of the year	\$ 7,364,497	\$ 670,788

Expenses - Governmental Activities



Revenue by Sources - Governmental Activities



FUND FINANCIAL ANALYSIS

The Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

Governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only assets and current liabilities generally are included on the balance sheet. Such information is useful in assessing the Agency's financial requirements. Types of governmental funds reported by the Agency are OCDA Public Assistance, NDAPP/SAH Debt Service, and Redevelopment Construction.

At June 30, 2003, the Agency's governmental funds reported combined fund balances of \$82,136,360 an increase of \$4,772,862 compared to the prior year. Total current year assessed valuations increased 7% over the previous year. Property taxes are based on the assessed value of property. Any increase in the assessed value would lead to an increase in tax increments. Of the total fund balances for the governmental funds, \$42,811,300 constitutes unreserved fund balances. This amount is available for spending at the Agency's discretion. The remainder of fund balance is restricted for the particular purpose that the fund was established for. For example, special revenue funds have either legal or operational requirements to restrict expenditures for specified purposes and debt service funds are restricted for payment of principal and interest on long-term debt.

OCDA Public Assistance has a total fund balance of \$17,292,361. This special revenue fund is used to account for the portion of tax increment revenue designated for low to moderate-income housing. As required by the California Redevelopment Law, the Agency allocates 20% of the tax increment during the year for low to moderate-income housing projects.

Neighborhood Development and Preservation Project (NDAPP)/Santa Ana Heights (SAH) Debt Service has a total fund balance of \$15,633,254, an increase of \$2,923,682 from the prior year, all of which is reserved for the payment of debt service.

The Redevelopment Construction balance increased by \$842,625 during the fiscal year mainly due to using Redevelopment set-aside for more capital projects than in the past because of special legislation AB 661 the County received two years ago that allowed spending the set-aside outside the Agency's project areas or specifically in cities (based on eligibility requirements of AB 661). This has increased the activity the Agency has spent in staff time and consultant time on underwriting affordable rental housing developments.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Agency's investment in capital assets for its governmental activities as of June 30, 2003, amounted to \$1,974,613, net of accumulated depreciation. The investment in capital assets includes land, structure and improvements, and construction in progress (CIP). The majority of the investment in capital assets is made up of CIP in the amount of \$1,619,757. The increase in CIP relates to projects including Spring Street, Cypress Acres Phase III, New Housing Development, Olive Island Development, and the Talega Phase I projects. Commitments for these projects total \$712,305 at year-end.

Structures and Improvements in the amount of \$63,110 were transferred to the Orange County Public Facilities & Resources Department. Additional information about the Agency's capital assets can be found in Note 6 to the financial statements.

Debt Administration

At June 30, 2003, the Agency had a total long-term debt outstanding of \$76,068,719. The outstanding debt is comprised of \$49,560,000 (1993 Tax Allocation Revenue Bonds – Santa Ana Heights), \$25,395,000, (Orange County Development Agency Tax Allocation Refunding Bonds, Series 2001 – NDAPP) and \$931,669 (1992 Tax Allocation Revenue Bonds, Series A – NDAPP), net of premium and deferred loss on refunding.

During the year, the Agency made scheduled principal payments of \$1,935,000 on the outstanding bonds. The NDAPP bonds are rated "AAA" by Standard and Poor's rating agency. MBIA Insurance Corporation, which insures the NDAPP bonds, is rated "AAA". The Santa Ana Heights Bonds have a

“BBB” rating by Standard and Poor’s rating agency, and are not insured. These ratings have not changed from the prior fiscal year.

Pursuant to AB 1290, the adopted debt limits for the Agency are as follows:

NDAPP - \$500,000,000 bond debt limit of which \$175,000,000 was transferred to Lake Forest.
SAH - \$165,221,402, which is subject to adjustment by the Consumer Price Index.

Additional information about the Agency’s long-term obligations can be found in Note 7 to the financial statements.

Other Potentially Significant Matters

There are a number of potentially significant issues facing the Agency and all redevelopment agencies statewide. It is clear that the State is in serious financial trouble and will be looking at all possible sources of revenue including redevelopment agencies to address their budget woes. The State required approximately \$604,000 to be shifted to school districts from the Agency as part of the fiscal bailout for fiscal year 2002-2003. Statewide \$75,000,000 was shifted from redevelopment agencies to the State during fiscal year 2002-2003. The funding shift continues for the next fiscal year (2003-2004) with the Agency required to pay approximately \$936,000 to the State for fiscal year 2003-2004. Clearly, redevelopment agencies across the State may find their funds diverted to Sacramento in order to help the State address its significant budget shortfall, currently estimated to be \$10.2 billion by the State’s nonpartisan Legislative Analyst.

Another area of uncertainty is the current litigation surrounding the methods for property tax collection in Orange County. County of Orange v. Assessment Appeals Board No. 3, popularly known as the "Poole case", involves a dispute over how the County Assessor calculates the constitutionally allowed two percent increases in property tax levels each year. The case is at the appellate court level and on December 12, 2002 was granted class-action status by the Superior Court and could have far reaching ramifications on redevelopment agencies and other agencies that receive revenues generated from property tax. The potential exists for the Agency (and other agencies) to be required to pay back a portion of the revenues they have collected. While this case is still pending, it casts a cloud over the financial situation of the Agency and other taxing entities. An Appellate Court ruling on this matter may occur as soon as spring of 2004.

Request for Information

We hope that the preceding information has provided you with a general overview of the Agency’s overall financial status. For questions or comments concerning information contained in this report, please contact the Orange County Development Agency, 1770 North Broadway, Santa Ana, CA 92706.

ORANGE COUNTY DEVELOPMENT AGENCY

**Statement of Net Assets and
Governmental Funds Balance Sheet
June 30, 2003**

	OCDA Public Assistance	NDAPP/SAH Debt Service	Redevelopment Construction	Total	Adjustments (Note 13)	Statement of Net Assets
<u>Assets</u>						
Pooled cash and investments (Note 3)	\$ 13,052,587	\$ 17,405,599	\$ 42,348,928	\$ 72,807,114	\$ -	\$ 72,807,114
Restricted assets - cash and investments with trustee (Note 3)	-	4,251,459	-	4,251,459	-	4,251,459
Property tax increment receivable	-	463,492	-	463,492	-	463,492
Due from other Agency funds (Note 4)	1,415,910	224,882	1,100,000	2,740,792	(2,740,792)	-
Due from other County funds (Note 10)	28,862	37,082	95,259	161,203	(161,203)	-
Interest receivable	-	-	-	-	161,203	161,203
Notes receivable	3,076,550	-	1,228,492	4,305,042	-	4,305,042
Land and improvements held for resale, net (Note 5)	-	-	1,996,140	1,996,140	-	1,996,140
Deposits with County airport (Note 11)	-	-	2,606,318	2,606,318	-	2,606,318
Bond issuance costs	-	-	-	-	489,619	489,619
Capital assets, nondepreciable (Note 6)	-	-	-	-	1,830,587	1,830,587
Capital assets, depreciable, net (Note 6)	-	-	-	-	144,026	144,026
Total assets	<u>\$ 17,573,909</u>	<u>\$ 22,382,514</u>	<u>\$ 49,375,137</u>	<u>\$ 89,331,560</u>	<u>\$ (276,560)</u>	<u>\$ 89,055,000</u>
<u>Liabilities</u>						
Liabilities						
Current liabilities:						
Accounts payable	\$ 5,306	\$ -	\$ 78,068	\$ 83,374	\$ -	\$ 83,374
Bond interest payable	-	-	-	-	1,411,706	1,411,706
Due to other Agency funds (Note 4)	224,882	2,515,910	-	2,740,792	(2,740,792)	-
Due to other County funds (Note 10)	51,360	458,578	61,074	571,012	-	571,012
Due to other governmental agencies	-	2,700,271	250	2,700,521	-	2,700,521
Development deposits	-	-	25,000	25,000	-	25,000
Deferred revenues	-	1,074,501	-	1,074,501	(244,330)	830,171
Bonds payable, net (Note 7)	-	-	-	-	2,164,936	2,164,936
Total current liabilities	<u>281,548</u>	<u>6,749,260</u>	<u>164,392</u>	<u>7,195,200</u>	<u>591,520</u>	<u>7,786,720</u>
Noncurrent liabilities:						
Bonds payable, net (Note 7)	-	-	-	-	72,940,726	72,940,726
Interest accretion on capital appreciation bonds payable (Note 7)	-	-	-	-	963,057	963,057
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>73,903,783</u>	<u>73,903,783</u>
Total liabilities	<u>281,548</u>	<u>6,749,260</u>	<u>164,392</u>	<u>7,195,200</u>	<u>74,495,303</u>	<u>81,690,503</u>
<u>Fund Balances/Net Assets</u>						
Fund balances:						
Reserved for encumbrances	112,046	-	3,174,813	3,286,859	(3,286,859)	-
Reserved for notes receivable	3,076,550	-	1,228,492	4,305,042	(4,305,042)	-
Reserved for land and improvements held for resale	-	-	1,996,140	1,996,140	(1,996,140)	-
Reserved for debt service	-	15,633,254	-	15,633,254	(15,633,254)	-
Reserved for low and moderate - income housing	14,103,765	-	-	14,103,765	(14,103,765)	-
Unreserved - undesignated	-	-	42,811,300	42,811,300	(42,811,300)	-
Total fund balances	<u>17,292,361</u>	<u>15,633,254</u>	<u>49,210,745</u>	<u>82,136,360</u>	<u>(82,136,360)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 17,573,909</u>	<u>\$ 22,382,514</u>	<u>\$ 49,375,137</u>	<u>\$ 89,331,560</u>		
Net assets:						
Invested in capital assets					1,974,613	1,974,613
Restricted for public assistance and SAH acoustical insulation program					19,898,679	19,898,679
Unrestricted (deficit)					(14,508,795)	(14,508,795)
Total net assets					<u>\$ 7,364,497</u>	<u>\$ 7,364,497</u>

ORANGE COUNTY DEVELOPMENT AGENCY
Statement of Activities and
Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances
For the Year Ended June 30, 2003

	OCDA Public Assistance	NDAPP/SAH Debt Service	Redevelopment Construction	Total	Adjustments (Note 13)	Statement of Activities
Expenditures/expenses:						
General government	\$ -	\$ 288,143	\$ 288,935	\$ 577,078	\$ 41,544	\$ 618,622
Redevelopment project costs	-	-	1,721,848	1,721,848	(49,360)	1,672,488
Tax pass-throughs (Note 8)	-	8,148,803	-	8,148,803	-	8,148,803
Low and moderate-income housing	466,475	-	-	466,475	-	466,475
Debt Service:						
Principal	-	1,935,000	-	1,935,000	(1,935,000)	-
Interest on long-term debt	-	4,283,764	-	4,283,764	154,687	4,438,451
Total expenditures/expenses	466,475	14,655,710	2,010,783	17,132,968	(1,788,129)	15,344,839
Program revenues:						
Operating grants and contributions	261,356	250,483	519,794	1,031,633	-	1,031,633
Net program revenues						14,313,206
General revenues:						
Property tax increments	-	18,965,244	-	18,965,244	132,718	19,097,962
Interest income	-	581,238	840,984	1,422,222	-	1,422,222
Miscellaneous revenue	58,139	35,962	392,630	486,731	-	486,731
Total general revenues	58,139	19,582,444	1,233,614	20,874,197	132,718	21,006,915
Other financing sources (uses)/changes in net assets:						
Transfers-internal activities (Note 9)	1,153,535	(2,253,535)	1,100,000	-	-	-
Net change in fund balance	1,006,555	2,923,682	842,625	4,772,862	(4,772,862)	-
Change in net assets	-	-	-	-	6,693,709	6,693,709
Fund balances/net assets:						
Beginning of the year	16,285,806	12,709,572	48,368,120	77,363,498	(78,104,416)	(740,918)
Prior period adjustment (Note 16)	-	-	-	-	1,411,706	1,411,706
End of the year	\$ 17,292,361	\$ 15,633,254	\$ 49,210,745	\$ 82,136,360	\$ (74,771,863)	\$ 7,364,497

See accompanying notes to the basic financial statements.

ORANGE COUNTY DEVELOPMENT AGENCY
Budgetary Comparison Statement - OCDA Public Assistance - Budget and Actual
For the Year Ended June 30, 2003

	OCDA Public Assistance			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
Intergovernmental revenue	400,000	400,000	\$ 261,356	\$ (138,644)
Miscellaneous revenue (rental)	-	-	58,139	58,139
Total revenues	<u>400,000</u>	<u>400,000</u>	<u>319,495</u>	<u>(80,505)</u>
Expenditures:				
Low and moderate-income housing:				
Administrative expenses	418,624	418,624	278,586	140,038
Land	1,030,192	2,290,979	-	2,290,979
Project improvements costs	11,532,149	11,532,149	187,889	11,344,260
Total expenditures	<u>12,980,965</u>	<u>14,241,752</u>	<u>466,475</u>	<u>13,775,277</u>
Excess (deficiency) of revenues over expenditures	<u>(12,580,965)</u>	<u>(13,841,752)</u>	<u>(146,980)</u>	<u>13,694,772</u>
Other financing sources (uses):				
Transfers in	2,589,943	2,589,943	2,695,728	105,785
Transfers out	<u>(1,754,040)</u>	<u>(1,754,040)</u>	<u>(1,542,193)</u>	<u>211,847</u>
Total other financing sources (uses)	<u>835,903</u>	<u>835,903</u>	<u>1,153,535</u>	<u>317,632</u>
Net change in fund balances	<u>\$ (11,745,062)</u>	<u>\$ (13,005,849)</u>	<u>1,006,555</u>	<u>\$ 14,012,404</u>
Fund balance, beginning of year			<u>16,285,806</u>	
Fund balance, end of year			<u>\$ 17,292,361</u>	

See accompanying notes to the basic financial statements.

**ORANGE COUNTY DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE COUNTY OF ORANGE, CALIFORNIA)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

Note 1 – County of Orange Bankruptcy

Background

On December 6, 1994, the County of Orange (County) filed for protection under Chapter 9 of the United States Bankruptcy Code as a result of losses arising out of the Orange County Investment Pool (Pool). The liquidation of the Pool's portfolio resulted in the realization of an investment loss of approximately \$1.6 billion. This loss was recorded on the County's books and records in fiscal year 1994-95 with approximately \$600 million allocable (on a pro rata basis) to the County's accounts, and substantially all of the remainder allocable to accounts of non-County Pool participants, such as cities, school districts and special districts. Approximately \$11.3 million of that loss was allocated to the Orange County Development Agency (Agency) and was reported in the year ended June 30, 1995.

In response to the bankruptcy, the County prepared a comprehensive recovery plan, which incorporated budget cuts, administrative reorganization, a settlement agreement with Pool participants, and various methods to raise funds. The County obtained State legislation consisting of Chapters 745, 746, 747 and 748 of the 1995 Statutes to provide for certain monies received from the State that would have otherwise been allocated to other County funds and other governmental agencies, to be deposited to the County's General Fund.

The United States Bankruptcy Court for the Central District of California in its Order Confirming Modified Second Amended Plan of Adjustment entered May 16, 1996, confirmed the Plan. On June 12, 1996, the Plan became effective and the County emerged from bankruptcy.

Impact of County Bankruptcy on the Agency

As described in Note 2, the Agency is a component unit of the County of Orange. Due to statutory and regulatory restrictions, revenues generated by the Agency are not available for County General Fund purposes. However, as a result of the State legislation described above, the Agency shall pay to the County an amount equal to \$4 million per year, for 20 years beginning on July 1, 1996. The Agency's long-term debt obligations are obligations of the Agency payable solely from a pledge of the net revenues of the Agency and a pledge of the funds and accounts established under the trust indenture securing the Agency's long-term debt obligations. The Agency did not file for bankruptcy protection; however, it was and will be significantly impacted by the County's bankruptcy because of investment losses and the reallocation of \$4 million of its revenue each year for the next 13 years.

Note 2 –Summary of Significant Accounting Policies

Reporting Entity

The Agency was established in February 1982 pursuant to the State of California Health and Safety Code, Section 38000 et seq., entitled *Community Redevelopment Law*. As such, the Agency acts as a legal entity, separate and distinct from the County, even though members of the Board of Supervisors of the County also serve as members of the Agency's governing board.

The actions of the Agency are binding, and business, including the incurrence of long-term debt, is routinely transacted in the Agency's name by its appointed representatives. The Agency is broadly

**ORANGE COUNTY DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE COUNTY OF ORANGE, CALIFORNIA)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003 (CONTINUED)**

Note 2 –Summary of Significant Accounting Policies (continued)

empowered to engage in the general economic revitalization and redevelopment of the County through acquisition and development of property in those areas of the County determined to be in a declining condition.

The basic financial statements of the Agency include the operations of the Orange County Financing Authority (Authority), established on May 19, 1992, pursuant to a Joint Powers Agreement by and between the Agency and the Orange County Housing Authority to assist in the financing of certain Agency projects. The Authority is considered to be a blended component unit of the Agency because the activities of the Authority provide services solely to the Agency and the governing board of the Authority is the same as the Agency's.

The Agency is a blended component unit of the County and, accordingly, its funds are blended in the basic financial statements of the County.

The Agency is currently administering the following redevelopment projects:

The Santa Ana Heights Project ("SAH") - This project was adopted in July 1986 to allow residents in the Santa Ana Heights area to become more comfortable with the higher levels of air traffic noise associated with John Wayne Airport by installing acoustical insulation in the residences. The Agency also adopted the Purchase Assurance Program to assist eligible owners to relocate from the Santa Ana Heights area by assuring a buyer for their property.

The Neighborhood Development and Preservation Project ("NDAPP") – This project was adopted in July 1988 to help rehabilitate neighborhoods in 13 unincorporated areas of the County and to support housing projects and programs for low and moderate income people.

The Agency utilizes bond proceeds, as well as the 20% tax increment set-aside to rehabilitate housing, to construct infrastructure and public facilities, and to provide low-cost housing.

Measurement Focus

All governmental funds are accounted for on a spending or "financial flow" measurement focus and the modified accrual basis of accounting. Under this method of accounting, revenues and other governmental fund type financial resources increments (i.e. bond issuance proceeds) are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available. Revenues are considered to be available when they are collectible within the current period or within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property tax increments, intergovernmental revenue, and interest income. Generally, only current assets and current liabilities are included on their balance sheets, with the exception of noncurrent portions of long-term receivables, which are reported on their balance sheets, offset by fund balance reserve accounts. Statements of revenues, expenditures and changes in fund balances for governmental funds generally present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

**ORANGE COUNTY DEVELOPMENT AGENCY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003 (CONTINUED)**

Note 2 –Summary of Significant Accounting Policies (continued)

Government-wide Financial Statements

The statement of net assets and statement of activities display information about the Agency. These statements include the financial activities of the overall government.

The statement of activities presents a comparison between direct expenses and program revenues for activities of the Agency. Direct expenses are those that are specifically associated with a program or function and are clearly identifiable to a particular function. Revenues that are not classified as program revenues, including all taxes are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the Agency's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The Agency reports the following major governmental funds:

OCDA Public Assistance Fund is used to account for the 20% portion of tax increment revenues legally required to be set aside for low and moderate-income housing.

NDAPP/SAH Debt Service Fund is used to account for tax increment revenues, interest income on invested funds, and bond proceeds required to be set aside for future debt service. The fund is used primarily to account for the repayment of principal and interest on long-term indebtedness of the Agency.

Redevelopment Construction Fund is used to account for bond proceeds available for project improvements, interest income on invested funds and certain other income. The fund's expenditures are primarily for general government administrative and redevelopment project costs.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Notes Receivable

Notes receivable are loans made for the development of low-income affordable housing projects or for property improvements in redevelopment project areas. These receivables are collateralized by deeds of trust. These loans are offset by a fund balance reserve, which indicates that they do not constitute available spendable resources.

**ORANGE COUNTY DEVELOPMENT AGENCY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003 (CONTINUED)**

Note 2 –Summary of Significant Accounting Policies (continued)

Land and Improvements Held for Resale

Land and improvements acquired by the Agency and held for resale are recorded as an asset at the time of purchase. The property is carried at the lower of acquisition cost or estimated net realizable value.

Capital Assets

Capital assets are recorded at cost and reported in the governmental activities column in the government-wide statement of net assets. Capital assets include land and structures and improvements that are held by the Agency for future development. The capitalization thresholds are as follows:

Land	\$0
Structures and Improvements	\$150,000

Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets. Estimated useful lives of structures and improvements are as follows:

Structures and Improvements	10 to 50 years
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Bond Issuance Costs, Original Issue Discounts and Premiums, and Deferred Gains or Losses on Refundings

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond issuance costs, premiums and discounts, and gains or losses occurring from refundings are deferred and amortized over the life of the bonds. Bond issuance costs are reported as deferred charges and are amortized into the appropriate functional expense category. Bonds payable are reported net of the applicable bond premiums, discounts and deferred amounts on refunding and are amortized as a component of interest expense.

In the fund financial statements, governmental funds recognize bond issuance costs and premiums and discounts during the current period. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures and all other amounts are reported as other financing sources or uses.

**ORANGE COUNTY DEVELOPMENT AGENCY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003 (CONTINUED)**

Note 2 – Summary of Significant Accounting Policies (continued)

Tax Increment Revenue

The Redevelopment Law provides a means for financing redevelopment projects based upon an allocation of taxes collected within project areas. The taxable valuation of project areas prior to adoption of the redevelopment plans, or base roll, is established and, except for any period during which the taxable valuation drops below the base roll level, the taxing agencies thereafter receive only the taxes produced by the levy of the then current tax rate upon the base roll. Tax revenues collected upon any increase in taxable valuation over the base roll (“tax increment”) are allocated to the Agency and may be pledged by the Agency for the repayment of any indebtedness incurred in financing or refinancing redevelopment projects. The Agency has no authority to levy property taxes and must look specifically to the allocation of taxes produced as described.

The following are significant dates on the property tax calendar:

	California Revenue & Taxation Code Section
Supplemental assessments are effective on the 1 st day of the month following the new construction or ownership change.	75.41
Property tax lien date is January 1.	2192
Assessor delivers roll to Auditor-Controller July 1.	616, 617
Tax roll is delivered to the Tax Collector on or before the levy date (the 4 th Monday in September).	2601
Secured tax payment due dates are:	
1 st Installment – November 1, and	2605
2 nd Installment – February 1.	2606
Secured tax delinquent dates (last day to pay without a penalty) are:	
1 st Installment – December 10, and	2617
2 nd Installment – April 10.	2618
Declaration of default for unpaid taxes occurs July 1.	3436
Power to sell is effective five years after tax default.	3691

Budget Adoption and Revision

Fiscal year budgets are prepared in accordance with the statutory requirements of the State of California Health and Safety Code. Preliminary budgets are prepared by the Agency and submitted to the Agency Board for approval. The Project Area Committee reviews the approved preliminary budget and a public hearing is conducted. The final budget is compiled and entered into the accounting records. The annual

**ORANGE COUNTY DEVELOPMENT AGENCY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003 (CONTINUED)**

Note 2 – Summary of Significant Accounting Policies (continued)

budget may be amended as determined by the Agency at a public hearing. Adjustments are then entered into the accounting records. The legal level of budgetary control is maintained at the fund level.

Policy Regarding Use of Restricted vs. Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first and then unrestricted resources, as they are needed.

Note 3 – Cash and Investments

The Agency's investment policy guidelines provide for pooling its cash and investments with the County Treasurer and allow for the same types of investments as the County.

Pooled Cash and Investments

The County Treasurer maintains the County Pool for the County and other non-County entities for the purpose of benefiting from economies of scale through pooled investment activities. At June 30, 2003, the Pool contains deposits and investments in U.S. government agencies, negotiable certificates of deposits, bankers' acceptances, commercial paper, medium-term notes, repurchase agreements and money market mutual funds with an average maturity of approximately 153 days. Pooled investments are stated at fair value. The County Treasurer contracts with an outside service to provide pricing for the fair value of investments in the portfolio. The investments are marked to market and the net asset value is calculated for the County Pool each business day. Securities listed or traded on a national securities exchange are valued at the last quoted sales price. Short-term money market instruments are valued using an average of closing prices and rate data commonly known as matrix pricing. Interest is apportioned to individual funds based generally on the average daily balances on deposit with the County Treasurer.

Cash and Investments with Trustee

Cash and investments with trustee represent amounts held by a trustee bank, which are restricted for use in either acquiring certain assets or servicing long-term debt of the Agency as required by the bond indentures. The trustee as fiscal agent is mandated by the bond indentures as to the types of authorized investments. Except for a nonparticipating investment agreement, all other investments with trustee are recorded at fair value. The nonparticipating investment agreement is recorded at cost.

Classification of Custodial Credit Risk

Under GASB Statement No. 3, investments are required to be categorized to provide descriptions of the level of custodial credit risk assumed by the Agency.

Investments in pools managed by other governments, such as the County Pool, which is managed by the County Treasurer, mutual funds, and the nonparticipating investment agreement are not subject to categorization because they are not evidenced by securities that exist in physical or book form.

**ORANGE COUNTY DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE COUNTY OF ORANGE, CALIFORNIA)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003 (CONTINUED)**

Note 3 – Cash and Investments (continued)

At June 30, 2003, cash and investments are summarized as follows:

Cash and investments pooled by the County Treasurer	\$ 72,807,114
Investments held by trustee:	
Guaranteed investment contracts	4,247,213
Money market mutual funds	4,246
	<u>\$ 77,058,573</u>

Note 4 – Interfund Receivables and Payables

Interfund receivables and payables at June 30, 2003 are as follows:

	Due from other funds	Due to other funds
OCDA Public Assistance Fund	\$ 1,415,910	\$ 224,882
Redevelopment Construction Fund	1,100,000	-
NDAPP/SAH Debt Service Fund	224,882	2,515,910
	<u>\$ 2,740,792</u>	<u>\$ 2,740,792</u>

The \$2,515,910 amount represented the low and moderate transfer from the NDAPP/SAH Debt Service Fund to the OCDA Public Assistance and Redevelopment Construction Funds. The \$224,882 transfer to the NDAPP/SAH Debt Service Fund was to pay the portion of OCDA Public Assistance's debt to the NDAPP/SAH Debt Service Fund. The OCDA Public Assistance Fund contains a portion of OCDA bond proceeds. The debt service on the portion of the bond proceeds deposited in the OCDA Public Assistance Fund serves as a credit against the annual OCDA 20% Low/Mod Set Aside Requirement. Thus, annually this credit is transferred from the OCDA Public Assistance Fund to the NDAPP/SAH Debt Service Fund for the required annual debt service payments.

Note 5 – Land and Improvements Held for Resale

Land and improvements held for resale are as follows:

	Redevelopment Construction Fund
Land and improvements held for resale (cost)	\$ 2,220,385
Allowance established for estimated decrease in property values	(224,245)
Land and improvements held for resale (net realizable value at June 30, 2003)	<u>\$ 1,996,140</u>

**ORANGE COUNTY DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE COUNTY OF ORANGE, CALIFORNIA)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003 (CONTINUED)**

Note 5 – Land and Improvements Held for Resale (Continued)

During the year ended June 30, 2003, the Agency increased the allowance by \$299,726 to reinstate the decreases in value recorded in prior years. The \$299,726 amount is comprised of an increase of \$209,591 for the sale of parcels related to the Mesa Drive/Birch Street realignment project plus an increase of \$90,135 for the adjustment of the book value of other parcels.

The Agency has reserved fund balances for the net balance of land and improvements held for resale at June 30, 2003, to indicate that these assets are not available spendable resources.

Note 6 – Changes in Capital Assets

The changes in capital assets include assets of the Agency other than those accounted for in Land and Improvements Held for Resale. Increases and decreases in the Agency's capital assets during the fiscal year were as follows:

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
Capital assets, nondepreciable:				
Land	\$ 210,830	\$ -	\$ -	\$ 210,830
Construction in progress (CIP)	1,570,397	49,360	-	1,619,757
Capital assets, depreciable:				
Structures and improvements	247,096	-	(63,110)	183,986
	<u>\$ 2,028,323</u>	<u>\$ 49,360</u>	<u>(\$ 63,110)</u>	<u>\$ 2,014,573</u>
Less accumulated depreciation:				
Structures and improvements	(61,526)	(9,990)	31,556	(39,960)
	<u>(61,526)</u>	<u>(9,990)</u>	<u>31,556</u>	<u>(39,960)</u>
Total capital assets, net	<u>\$ 1,966,797</u>	<u>\$ 39,370</u>	<u>(\$ 31,554)</u>	<u>\$ 1,974,613</u>

The Aliso Creek Bike Trail Bridge with a net book value of \$31,554 was contributed to the Orange County Public Facilities & Resources Department (PFRD).

Commitments related to construction in progress totaled \$712,305 at year-end.

Depreciation expense of \$9,990 for the current year was charged to the general government function.

**ORANGE COUNTY DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE COUNTY OF ORANGE, CALIFORNIA)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003 (CONTINUED)**

Note 7 – Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2003:

	Balance July 1, 2002	Issuances, Premiums, Deferred Amounts on Refundings and Accretions	Retirements	Balance June 30, 2003	Due Within One Year
Orange County Development Agency Tax Allocation Refunding Bonds, Series 2001- NDAPP	\$ 26,160,000	\$ -	\$ (765,000)	\$ 25,395,000	\$ 965,000
Bond premium on Tax Allocation Refunding Bonds, Series 2001 – NDAPP	326,700	(10,198)	-	316,502	19,811
Deferred amount on refunding (1992 Orange County Development Agency Revenue Bonds)	(1,152,384)	54,875	-	(1,097,509)	(54,875)
1993 Tax Allocation Revenue Bonds- Santa Ana Heights	50,730,000	-	(1,170,000)	49,560,000	1,235,000
1992 Tax Allocation Revenue Bonds, Series A – NDAPP	931,669	-	-	931,669	-
Interest accretion on 1992 Tax Allocation Revenue Bonds, Series A – NDAPP	845,098	117,959	-	963,057	-
Total long-term liabilities	<u>\$ 77,841,083</u>	<u>\$ 162,636</u>	<u>\$ (1,935,000)</u>	<u>\$ 76,068,719</u>	<u>\$ 2,164,936</u>

Orange County Development Agency Tax Allocation Refunding Bonds, Series 2001 - NDAPP

The Agency issued these bonds on July 11, 2001, in the original principal amount of \$26,160,000 at a premium of \$326,700, to currently refund a portion of the 1992 Tax Allocation Revenue Bonds, Series A for the NDAPP in the amount of \$26,140,000. The bonds are due in annual principal installments ranging from \$280,000 to \$2,005,000 beginning September 1, 2002, through 2022, at interest rates ranging from 4.00% to 5.50%. The principal amount outstanding at June 30, 2003 is \$25,395,000.

1993 Tax Allocation Revenue Bonds – Santa Ana Heights

The Agency issued these bonds on August 1, 1993, in the original principal amount of \$57,965,000 due in annual principal installments ranging from \$530,000 to \$4,000,000 beginning September 1, 1994 through 2023, at interest rates from 3.25% to 6.20%. The principal amount outstanding at June 30, 2003, is \$49,560,000.

**ORANGE COUNTY DEVELOPMENT AGENCY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003 (CONTINUED)**

Note 7 – Long-Term Liabilities (continued)

1992 Tax Allocation Revenue Bonds, Series A – NDAPP

Orange County Financing Authority issued current interest rate and capital appreciation bonds on June 1, 1992, in the original principal amount of \$28,081,669 to advance refund the 1989 Tax Allocation Bonds for the NDAPP, due in annual principal installments ranging from \$50,000 to \$2,140,000 beginning September 1, 1994, through 2022. Current interest rate bonds bear interest at 4.50% to 6.50% and capital appreciation bonds bear interest at 6.50% to 6.55%. Accretion of the capital appreciation bond discount was \$117,959 for the year ended June 30, 2003. The amount outstanding at June 30, 2003, is \$931,669.

The annual requirements to amortize outstanding bonds included in the Statement of Net Assets as of June 30, 2003, including interest, are as follows:

Years Ending June 30	2001 Tax Allocation Bonds Series A	1993 Tax Allocation Bonds	1992 Tax Allocation Bonds Series A	Less Total Interest	Total Principal
2004	\$ 2,171,881	\$ 4,208,123	\$ -	\$ 4,180,004	\$ 2,200,000
2005	1,461,981	4,203,810	725,000	4,473,756	1,917,035
2006	1,460,581	4,203,763	725,000	4,404,870	1,984,474
2007	1,463,681	4,202,378	725,000	4,325,899	2,065,160
2008	2,171,781	4,195,115	-	3,771,896	2,595,000
2009-2013	10,842,909	20,940,538	-	16,568,447	15,215,000
2014-2018	10,761,044	20,851,088	-	11,657,132	19,955,000
2019-2023	10,315,875	20,708,163	-	5,069,038	25,955,000
2024	-	4,122,500	-	122,500	4,000,000
Total	<u>\$ 40,649,733</u>	<u>\$ 87,635,478</u>	<u>\$ 2,175,000</u>	<u>\$ 54,573,542</u>	<u>\$ 75,886,669</u>

Pursuant to AB 1290, the adopted debt limits for the Agency are as follows:

NDAPP - \$500,000,000 bond debt limit of which \$175,000,000 was transferred to Lake Forest.
SAH - \$165,221,402, which is subject to adjustment by the Consumer Price Index.

Note 8 – Pass-Through Agreements

The Agency has entered into agreements with various governmental entities to “pass-through” applicable portions of property tax revenues received by the Santa Ana Heights and NDAPP project areas attributable to these entities to the extent that their territorial limits reside within the Agency’s project areas. Tax pass-throughs also include the \$4,000,000 revenue reallocation related to the County’s bankruptcy (Note 1).

**ORANGE COUNTY DEVELOPMENT AGENCY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003 (CONTINUED)**

Note 9 – Transfers In/Out

Transfers include the 20% set-aside for low and moderate-income housing and the transfer of Agency tax increment revenue. The amount transferred to the OCDA Public Assistance Fund from the NDAPP/SAH Debt Service Fund for low and moderate-income housing was \$2,695,728. These transfers provide for future project improvements and rehabilitation for the redevelopment projects. The NDAPP/SAH Debt Service Fund transferred excess surplus to the Redevelopment Construction Fund of \$1,100,000. In addition, the OCDA Public Assistance Fund transferred to the NDAPP/SAH Debt Service Fund \$1,542,193 to meet the debt service requirements of these projects.

Note 10 – Due To and From Other County Funds

Due to other County funds consists principally of reimbursements for employee services and development projects, and pass-through accruals. Due from other County funds consists of interest receivable.

Note 11 – Deposits with County Airport

The Agency deposited monies with John Wayne Airport (Airport), a department of the County, for purposes of funding the Acoustical Insulation Project and the Purchase Assurance Program in the Santa Ana Heights area near the Airport. The Airport on behalf of the Agency administers the programs. These monies were deposited by the Airport in the Orange County Treasurer's Pool in the Airport's name on behalf of the Agency.

Note 12 – Related Party Transactions

The Agency reimbursed a total of \$1,279,593 to various County departments who administer various functions/areas of the Agency and they are as follows:

Orange County Housing and Community Development (HCD) is responsible for affordable housing projects and activities within the NDAPP project area including housing rehabilitation, public works improvements, and some administrative tasks. Planning and Development Services Department (PDSD) is responsible for activities within SAH project areas including staffing the SAH Project Advisory Committee meetings, various, public works type projects and community relations activities.

John Wayne Airport is responsible for the Acoustical Insulation program in SAH. County Counsel provides legal support on a variety of issues. Public Facilities and Research Development (PFRD) acts as project manager on most public works type projects. County Executive Office (CEO) Real Estate provides projects support on real estate issues. CEO Strategic Affairs is responsible for overall agency administration and policy.

The Agency transferred the net book value of one of its capital assets to the Public Facilities and Resource Department. The amount transferred totaled \$31,556.

**ORANGE COUNTY DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE COUNTY OF ORANGE, CALIFORNIA)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003 (CONTINUED)**

Note 13 – Adjustments Between Fund Financial Statements and Government-Wide Financial Statements

Adjustments between the Governmental Funds Balance Sheet to the Statement of Net Assets

Bond Issuance Costs

Bond issuance costs of \$489,619 are not included in the fund financial statements but are included in the statement of net assets because GASB 34 statements focus on economic financial resources and require these assets to be included.

Capital Assets

Capital assets used in the operations of governmental activities are not financial resources and therefore are not reported in the fund balance sheet. Such assets must be included in the statement of net assets for purpose of government-wide reporting. These assets consist of:

Land	\$ 210,830
Construction in progress	1,619,757
Structures and improvements	183,986
Accumulated depreciation	<u>(39,960)</u>
Total capital assets, net	<u><u>\$ 1,974,613</u></u>

Deferred Revenue

Under the modified accrual basis of accounting, revenue cannot be recognized until it is available to liquidate liabilities of the current period. Governmental-wide statements are prepared under accrual accounting. Under accrual accounting, revenue must be recognized as soon as it is earned, regardless of availability. Also, any liability of earned but unavailable deferred revenue must be eliminated in the government-wide financial statements. Deferred revenue of \$244,330 was reclassified to revenue.

Liabilities

Governmental funds report only those liabilities expected to be liquidated with current available financial sources. Thus, governmental funds typically do not report any liability for the unmatured portion of long-term debt and interest payable on long-term debt. However, all debt must be reported in the government-wide financial statements. Long-term liabilities include:

Bonds payable, net - current	\$ 2,164,936
Bonds payable, net – noncurrent	72,940,726
Interest accretion on capital appreciation bonds payable	963,057
Accrued interest payable on bonds	1,411,706

**ORANGE COUNTY DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE COUNTY OF ORANGE, CALIFORNIA)
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003 (CONTINUED)**

Note 13 – Adjustments Between Fund Financial Statements and Government-Wide Financial Statements (continued)

Adjustments between the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Long-Term Liabilities

Long-term debt transactions, including the repayment of bond principal are reported as expenditures in governmental funds. In the statement of net assets, such transactions reduce or increase the Agency's long-term liabilities, therefore increasing or decreasing fund balance are as follows:

Bond principal payments	\$ 1,935,000
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Expenses

Governmental funds report capital outlays as expenditures. The portion of capital outlay expenditures that are capitalized are additions to construction in progress in the government-wide statements and totaled \$49,360. In addition, in the statement of activities the cost of assets used in the operations of the Agency is allocated over their estimated useful lives and reported as depreciation expense. Depreciation for the current fiscal year was \$9,990. The Agency transferred the net book value of one of its capital assets to the Orange County Public Facilities and Resource Department. The amount transferred totaled \$31,554.

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds, they are as follows:

Accreted interest on bonds payable	\$ 117,959
Accrued interest expense	\$ 36,728

Property tax revenue

Revenue of \$132,718 in the statement of activities that do not provide current financial resources is not reported as revenues in the fund.

Note 14 - Contingency

County of Orange v. Assessment Appeals Board No. 3

On December 27, 2001, the Superior Court ruled that the County Assessor used an illegal assessment method in recovering Proposition 13 values on properties that experienced past temporary declines in value. The case has been certified as a class action, with all affected County taxpayers as member of the class. The County, the County Assessor, and the County Treasurer-Tax Collector have filed appeals. An appellate court ruling is expected by early Spring 2004. Should the Superior Court's decision become final, the potential financial impact to the Agency, as estimated by the County Auditor-Controller, may result in refunds of approximately \$2,073,000 and a reduced tax base of \$714,000.

**ORANGE COUNTY DEVELOPMENT AGENCY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003 (CONTINUED)**

Note 15 – Subsequent Events

The following event occurred subsequent to June 30, 2003.

Orange County Development Agency Tax Allocation Refunding Bonds, Series 2003

On November 13, 2003, the Orange County Development Agency issued \$38,465,000 Tax Allocation Refunding Bonds (Santa Ana Heights Project Area). Proceeds from the Bonds are being used to refund and defease the 1993 Tax Allocation Revenue Bonds and to fund a reserve for the new Bonds. The new Bonds are secured by a pledge of Tax Revenues allocated and paid to the Agency with respect to the Project Area. Redemption of the 1993 Bonds, \$48,325,000 will take place on December 23, 2003 at a redemption price equal to 102% of the aggregate principal amount to be redeemed.

Note 16 – Restatement of Prior Period

The Orange County Development Agency restated its beginning net assets by \$1,411,706 to reflect an over-accrual of interest expense in the prior period.

ORANGE COUNTY DEVELOPMENT AGENCY
NDAPP/SAH Debt Service Fund
Combining Balance Sheet by Project Area
June 30, 2003

	Santa Ana Heights	NDAPP	Total
<u>Assets</u>			
Pooled cash and investments	\$ 4,319,085	\$ 13,086,514	\$ 17,405,599
Restricted assets - cash and investments with trustee	4,249,105	2,354	4,251,459
Property tax increment receivable	135,709	327,783	463,492
Due from other Agency funds	-	224,882	224,882
Due from other County funds	9,481	27,601	37,082
Total assets	\$ 8,713,380	\$ 13,669,134	\$ 22,382,514
 <u>Liabilities and Fund Balances</u>			
Liabilities:			
Due to other Agency funds	\$ 2,115,910	\$ 400,000	\$ 2,515,910
Due to other County funds	315,307	143,271	458,578
Due to other governmental agencies	8,260	2,692,011	2,700,271
Deferred revenues	866,961	207,540	1,074,501
Total liabilities	3,306,438	3,442,822	6,749,260
 Fund balances:			
Reserved for debt service	5,406,942	10,226,312	15,633,254
Total fund balances	5,406,942	10,226,312	15,633,254
Total liabilities and fund balances	\$ 8,713,380	\$ 13,669,134	\$ 22,382,514

ORANGE COUNTY DEVELOPMENT AGENCY
NDAPP/SAH Debt Service Fund
Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances by Project Area
For the Year Ended June 30, 2003

	Santa Ana Heights	NDAPP	Total
Revenues:			
Property tax increments	\$ 9,241,387	\$ 9,723,857	\$ 18,965,244
Interest income	387,738	193,500	581,238
Intergovernmental revenue	29,530	220,953	250,483
Rental and other	21,703	14,259	35,962
	<u>9,680,358</u>	<u>10,152,569</u>	<u>19,832,927</u>
Total revenues			
Expenditures:			
General government:			
Administrative costs	6,599	112,019	118,618
Professional services	130,169	39,356	169,525
Tax pass-throughs	3,308,774	4,840,029	8,148,803
Debt service:			
Principal	1,170,000	765,000	1,935,000
Interest	3,042,283	1,241,481	4,283,764
	<u>7,657,825</u>	<u>6,997,885</u>	<u>14,655,710</u>
Total expenditures			
Excess of revenues over expenditures	<u>2,022,533</u>	<u>3,154,684</u>	<u>5,177,217</u>
Other financing sources (uses):			
Transfers in	343,722	1,198,471	1,542,193
Transfers out	(2,410,255)	(1,385,473)	(3,795,728)
	<u>(2,066,533)</u>	<u>(187,002)</u>	<u>(2,253,535)</u>
Total other financing sources (uses)			
Net change in fund balances	(44,000)	2,967,682	2,923,682
Fund balances, beginning of year	<u>5,450,942</u>	<u>7,258,630</u>	<u>12,709,572</u>
Fund balances, end of year	<u><u>\$ 5,406,942</u></u>	<u><u>\$ 10,226,312</u></u>	<u><u>\$ 15,633,254</u></u>

ORANGE COUNTY DEVELOPMENT AGENCY
Redevelopment Construction Fund
Combining Balance Sheet by Project Area
June 30, 2003

<u>Assets</u>	Santa Ana Heights	NDAPP	Total
Pooled cash and investments	\$ 33,993,539	\$ 8,355,389	\$ 42,348,928
Due from other Agency funds	700,000	400,000	1,100,000
Due from other County funds	75,254	20,005	95,259
Notes receivable	1,000,000	228,492	1,228,492
Land and improvements held for resale, net	1,996,140	-	1,996,140
Deposits with County Airport	2,606,318	-	2,606,318
Total assets	<u>\$ 40,371,251</u>	<u>\$ 9,003,886</u>	<u>\$ 49,375,137</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ 77,748	\$ 320	\$ 78,068
Due to other County funds	15,896	45,178	61,074
Due to other governmental agencies	-	250	250
Development deposits	25,000	-	25,000
Total liabilities	<u>118,644</u>	<u>45,748</u>	<u>164,392</u>
Fund balances:			
Reserved for encumbrances	3,085,571	89,242	3,174,813
Reserved for notes receivable	1,000,000	228,492	1,228,492
Reserved for land and improvements held for resale	1,996,140	-	1,996,140
Unreserved - undesignated	34,170,896	8,640,404	42,811,300
Total fund balances	<u>40,252,607</u>	<u>8,958,138</u>	<u>49,210,745</u>
Total liabilities and fund balances	<u>\$ 40,371,251</u>	<u>\$ 9,003,886</u>	<u>\$ 49,375,137</u>

ORANGE COUNTY DEVELOPMENT AGENCY
Redevelopment Construction Fund
Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances by Project Area
For the Year Ended June 30, 2003

	Santa Ana Heights	NDAPP	Total
Revenues:			
Interest income	\$ 683,593	\$ 157,391	\$ 840,984
Intergovernmental revenue	519,794	-	519,794
Rental and other	369,313	23,317	392,630
Total revenues	<u>1,572,700</u>	<u>180,708</u>	<u>1,753,408</u>
Expenditures:			
General government:			
Administrative costs	191,234	81,593	272,827
Operation of acquired property	10,875	-	10,875
Disposal costs	2,525	2,708	5,233
Redevelopment project costs:			
Professional services	788,094	95,878	883,972
Planning, survey and design	238,745	758	239,503
Project improvement costs	361,048	41,438	402,486
Acquisition expense	6,300	59,560	65,860
Rehabilitation costs	-	130,027	130,027
Total expenditures	<u>1,598,821</u>	<u>411,962</u>	<u>2,010,783</u>
Deficiency of revenues over expenditures	<u>(26,121)</u>	<u>(231,254)</u>	<u>(257,375)</u>
Other financing sources:			
Transfers in	700,000	400,000	1,100,000
Net change in fund balances	<u>673,879</u>	<u>168,746</u>	<u>842,625</u>
Fund balances, beginning of year	<u>39,578,728</u>	<u>8,789,392</u>	<u>48,368,120</u>
Fund balances, end of year	<u><u>\$ 40,252,607</u></u>	<u><u>\$ 8,958,138</u></u>	<u><u>\$ 49,210,745</u></u>

ORANGE COUNTY DEVELOPMENT AGENCY
Budgetary Comparison Schedules
Capital Projects and Debt Service Funds - Budget and Actual
For the Year Ended June 30, 2003

	Redevelopment Construction				NDAPP/SAH Debt Service			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:								
Property tax increments	\$ -	\$ -	\$ -	\$ -	\$ 15,708,096	\$ 15,708,096	\$ 18,965,244	\$ 3,257,148
Interest income	1,397,500	1,397,500	840,984	(556,516)	660,000	660,000	581,238	(78,762)
Intergovernmental revenue	1,900,000	1,900,000	519,794	(1,380,206)	200,000	200,000	250,483	50,483
Miscellaneous revenue (rental)	40,000	40,000	392,630	352,630	-	-	35,962	35,962
Total revenues	<u>3,337,500</u>	<u>3,337,500</u>	<u>1,753,408</u>	<u>(1,584,092)</u>	<u>16,568,096</u>	<u>16,568,096</u>	<u>19,832,927</u>	<u>3,264,831</u>
Expenditures:								
Administrative expenses	2,807,125	3,092,760	1,396,302	1,696,458	15,978,172	12,520,824	288,143	12,232,681
Rehabilitation costs	2,428,491	2,429,344	130,027	2,299,317	-	-	-	-
Right of way	1,000,000	1,080,000	-	1,080,000	-	-	-	-
Land	6,427,000	7,182,605	-	7,182,605	-	-	-	-
Project improvements costs	33,052,665	32,768,143	484,454	32,283,689	-	-	-	-
Pass-throughs	-	-	-	-	1,852,829	4,462,954	8,148,803	(3,685,849)
Debt service:								
Principal	-	-	-	-	1,935,000	1,935,000	1,935,000	-
Interest	-	-	-	-	4,283,765	4,283,765	4,283,764	1
Total expenditures	<u>45,715,281</u>	<u>46,552,852</u>	<u>2,010,783</u>	<u>44,542,069</u>	<u>24,049,766</u>	<u>23,202,543</u>	<u>14,655,710</u>	<u>8,546,833</u>
Excess (deficiency) of revenues over expenditures	<u>(42,377,781)</u>	<u>(43,215,352)</u>	<u>(257,375)</u>	<u>42,957,977</u>	<u>(7,481,670)</u>	<u>(6,634,447)</u>	<u>5,177,217</u>	<u>11,811,664</u>
Other financing sources (uses):								
Transfers in	1,100,000	1,100,000	1,100,000	-	1,741,636	1,741,636	1,542,193	(199,443)
Transfers out	-	-	-	-	(7,694,189)	(7,833,540)	(3,795,728)	4,037,812
Total other financing sources (uses)	<u>1,100,000</u>	<u>1,100,000</u>	<u>1,100,000</u>	<u>-</u>	<u>(5,952,553)</u>	<u>(6,091,904)</u>	<u>(2,253,535)</u>	<u>3,838,369</u>
Net change in fund balances	<u>\$ (41,277,781)</u>	<u>\$ (42,115,352)</u>	<u>842,625</u>	<u>\$ 42,957,977</u>	<u>\$ (13,434,223)</u>	<u>\$ (12,726,351)</u>	<u>2,923,682</u>	<u>\$ 15,650,033</u>
Fund balances, beginning of year			<u>48,368,120</u>				<u>12,709,572</u>	
Fund balances, end of year			<u>\$ 49,210,745</u>				<u>\$ 15,633,254</u>	

To the Honorable Board of the
Orange County Development Agency

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF BASIC FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

We have audited the basic financial statements of the Orange County Development Agency (Agency), a component unit of the County of Orange, California, as of June 30, 2003 and have issued our report thereon dated December 15, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Agency's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the State Controller's Office and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements which collectively comprise the Agency's basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of the Agency, Agency management and the State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountants